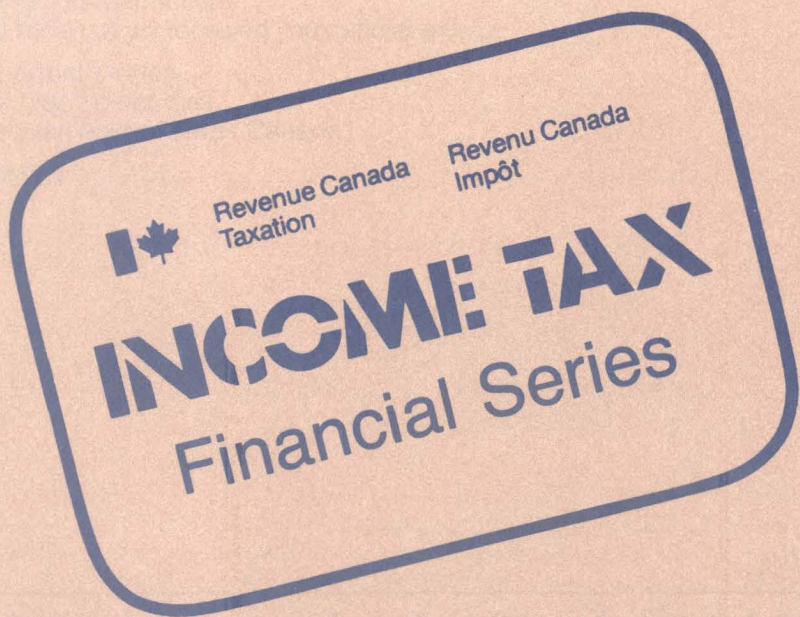


Registered Home Ownership Savings Plans



September 1985

Canada

Notice

Proposed tax amendments

The information contained in this pamphlet has been prepared based on changes proposed in the May 23, 1985 Budget. At the time of the printing, the legislation associated with the proposed amendments had not yet received Royal Assent. For more up-to-date information, please contact your district taxation office.

Cette brochure est aussi disponible en français sous le titre «Régimes enregistrés d'épargne-logement».

This pamphlet is only a guide. For official purposes, please refer to the Income Tax Act.

Copies of this pamphlet are available free of charge from district taxation offices.

Contents

Introduction	1
Using your funds withdrawn after May 22, 1985 and before 1986	1
Contributions made after May 22, 1985	2
Funds left in an RHOSP after 1985	2
Using your RHOSP funds withdrawn before budget day	2
New home or old?	2
Building your own home	3
Deductible for three years	3
Contributions made to your RHOSP before budget day	4
Claiming your deductions	4
If you have not yet received your official receipt	4
What happens when	5
... the plan holder dies	5
... the plan holder leaves Canada	5
References	5

When you first open your plan under the May 22, 1985 Budget, you will be able to withdraw all or part of the funds in your plan to qualify for the RHOSP. The maximum amount that can be withdrawn is \$15,000. After May 22, 1985, you will be able to withdraw funds from your plan to qualify for the RHOSP. The maximum amount that can be withdrawn is \$15,000. After May 22, 1985, you will be able to withdraw funds from your plan to qualify for the RHOSP. The maximum amount that can be withdrawn is \$15,000.

When you first open your plan under the May 22, 1985 Budget, you will be able to withdraw all or part of the funds in your plan to qualify for the RHOSP. The maximum amount that can be withdrawn is \$15,000. After May 22, 1985, you will be able to withdraw funds from your plan to qualify for the RHOSP. The maximum amount that can be withdrawn is \$15,000.

Using your funds withdrawn after May 22, 1985 and before 1986

If you withdraw funds from your plan after May 22, 1985 and before 1986, you will be able to withdraw all or part of the funds in your plan to qualify for the RHOSP. The maximum amount that can be withdrawn is \$15,000.

Introduction

The federal budget of May 23, 1985 proposed to discontinue tax deductible contributions to registered home ownership savings plans. At the time of printing, however, the legislation associated with the RHOSP proposals had not yet received Royal Assent.

This pamphlet contains information on the tax consequences and treatment of RHOSP funds for those who had a registered home ownership savings plan in 1985 or those who withdrew funds from their plan in 1982, 1983, 1984 or before May 23, 1985 with the intention of buying or building an owner-occupied home within three years of the withdrawal of the funds.

If you have any questions about your specific RHOSP situation that are not covered in this pamphlet or your T1 General Guide, please contact either the issuer of your plan for financial advice or your district office for information about reporting RHOSP contributions and withdrawals on your tax return.

In order to be deductible on your 1985 tax return, contributions must have been made after 1984 and before May 23, 1985. Contributions made after May 22, 1985 cannot be claimed as a deduction on your 1985 tax return, and any income earned in the plan in 1985 on such contributions must be included in your income on your 1985 income tax return.

Withdrawals from your plan made before May 23, 1985 are subject to the normal conditions of withdrawal of funds in order to qualify for RHOSP tax treatment. Funds withdrawn from an RHOSP after May 22, 1985 and before January 1, 1986 do not have to be reported on your 1985 tax return as income. Any income earned on the principal after it is withdrawn will have to be reported in the normal manner on your 1985 tax return. If you did not collapse your plan by December 31, 1985, then income earned after that date on funds remaining in your plan will not be sheltered from tax.

Note: Residents of Quebec should be aware that the treatment of funds withdrawn from registered home ownership savings plans after May 22, 1985 remains the same, for provincial tax purposes, as the treatment of funds withdrawn before May 23, 1985 (i.e., the funds must be used to purchase an owner-occupied home in order not to be taxable in Quebec). Further information is available from the Quebec Ministry of Revenue.

Using your funds withdrawn after May 22, 1985 and before 1986

If you withdrew your funds and collapsed your RHOSP after May 22, 1985 and

before January 1, 1986, all such funds (principal and income) are tax free and are not to be reported on your 1985 income tax return. In addition, except for residents of Quebec, as mentioned in the "Introduction," there are no restrictions on how the withdrawn funds may be used.

Contributions made after May 22, 1985

Contributions made to a registered home ownership savings plans after May 22, 1985 are not deductible on your 1985 income tax return. Any income earned in the plan on such contributions must be included in your 1985 income for tax purposes.

Funds left in an RHOSP after 1985

It is possible to keep your home ownership savings plan open after December 31, 1985 even though it is not a registered plan after that date and you will not be allowed to make further deductible contributions to it. This could happen because of the type of RHOSP you had or because of some conditions of withdrawal imposed by the issuer of your plan that made it more advantageous for you to keep your plan intact rather than collapsing it before January 1, 1986. Beginning in 1986, however, income earned on amounts remaining in such a plan or fund will no longer be sheltered from tax and will be taxed as income from property.

Using your RHOSP funds withdrawn before budget day

Once your funds were withdrawn, your RHOSP ceased to exist.

The funds, if withdrawn before May 23, 1985, will be tax free only to the extent that they were used to acquire your own home in Canada and the home is occupied by you in the year the funds were withdrawn or within 60 days after the end of the year; otherwise, an amount equal to the funds withdrawn will be included in your income. However, you may be permitted to claim an equivalent deduction if you acquire and occupy your own home within the next three years (see "Deductible for three years").

New home or old?

You can use the funds you withdrew from your RHOSP before May 23, 1985 to buy a new home if you wish, or an old home. Or you can use the funds to build your own home.

Whether your home is new or not, your RHOSP funds can be used for its purchase if it is an "owner-occupied home;" that is, it must be

- situated in Canada,
- owned by you solely, jointly or otherwise, which includes ownership of a share in a co-operative housing corporation, and
- occupied by you at some point during the year you withdrew your funds or in the first 60 days after the end of the year.

Your owner-occupied home can be a house, cottage, apartment in a duplex or apartment building, or a unit in a condominium. It can be a mobile home (or a trailer) provided it is constructed and intended for year-round, long-term habitation and designed to be connected to service utilities and to be transported to a location where it may be supported on wheels, jacks, posts, piers or a permanent foundation. It can also be a houseboat, if it is constructed and intended for year-round, long-term habitation.

Building your own home

Your RHOSP funds can be used for building your own home. You may use your accumulated funds to purchase land, construction materials and labour for your home and the funds so used will remain tax free if the house is occupied by you at some point during the year in which you withdrew your funds or in the first 60 days after the end of the year.

You could have made contributions to your RHOSP every year up to May 22, 1985 while you were building your house. This applies even if your house or any part of it is inhabited (unless you or your spouse with whom you reside own other real property that is used as a dwelling place by anyone).

Deductible for three years

If you withdrew your funds in 1982, 1983, 1984 or 1985 (before May 23) and did not buy a home in the year or within 60 days after the end of the year of withdrawal, you must include the full amount of your withdrawn funds in your income for income tax purposes for the year of withdrawal. If you do acquire an owner-occupied home at any time in the three taxation years following the year you withdrew your funds (i.e., 1985, 1986, 1987 or 1988), you will, for the year of acquisition, be allowed a deduction from income for the amount previously included in income to the extent that an equivalent amount was used to acquire your home.

Contributions made to your RHOSP before Budget day

You may have contributed up to \$1,000 a year to your plan to a total lifetime limit of \$10,000. This limit includes excess contributions but does not include the earnings made by your plan nor is it in any way affected by your contributions to other savings plans, such as to a registered retirement savings plan or to a deferred profit-sharing plan. To be deductible on your 1985 income tax return, your 1985 contributions must have been made before May 23, 1985.

Claiming your deductions

You should receive from the issuer of your RHOSP an official receipt for the contributions you made before May 23, 1985. Complete and sign part 2 of the receipt.

Enter on your tax return the amount of your tax deductible contributions for 1985 — remember, they cannot exceed \$1,000 for the year, or the difference between the \$10,000 total contribution limit minus the total of your contributions for previous years, if that difference is less than \$1,000. Attach the original copy of the receipt to your return when you file it.

Claims for exclusion from income of amounts received out of your RHOSP before May 23, 1985 that were used to acquire your owner-occupied home are made on form T1 RHOSP (a registered home ownership disbursement certificate). The completed certificate should be filed with your income tax return. This form is available from district offices.

If you have not yet received your official receipt

An official receipt cannot be issued until your plan has been registered with Revenue Canada Taxation. The Department does not accept interim or temporary receipts or photocopies of the application for registration. If you file your income tax return and claim a deduction from your income for such a contribution without including certification that your contribution is deductible, your claim could be disallowed.

If you have not received your official receipt by the time you file your return, complete your return without claiming the deduction. When you do receive the receipt, simply write to the taxation centre serving your area, explain the situation and enclose the official receipt. Don't forget to include your name, address and social insurance number.

What happens when. . .

. . .the plan holder dies

If the plan holder died in 1985 before withdrawing funds from an RHOSP, the fair market value of the accumulated funds in the plan at the date of death, if death occurred before May 23, 1985, will be included as part of the deceased's income for the year of death. If, however, the plan provides that the spouse may receive the funds from the RHOSP as a single payment and the spouse receives the payment after May 22, 1985 and before 1986 the funds will be received tax free.

. . .the plan holder leaves Canada

If you left Canada before May 23, 1985 and withdrew your funds before you left, you will receive a T4HOSP Supplementary Form showing the amount you received in the year while resident in Canada. If that amount has not been used within the time limit to purchase your owner-occupied home (in Canada), it must be reported as income on your individual income tax return for the year it is withdrawn.

If you withdraw your funds after you leave Canada, a non-resident tax of 25 per cent (or such lesser rate as provided by any tax treaty) will be withheld from the amount paid to you. Since as a non-resident you will receive your RHOSP funds minus the amount of the withholding tax, no further reporting of such payment is required of you for Canadian income tax purposes.

References

Information Circular

75-18R6 Registered Home Ownership Savings Plans

Interpretation Bulletin

IT-437 Ownership of Dwelling Property